

**REPORT OF THE AUDIT OF THE
HENDERSON COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

June 28, 2005



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
HENDERSON COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES

June 28, 2005

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2004 Taxes for Henderson County Sheriff as of June 28, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$15,338,569 for the districts for 2004 taxes, retaining commissions of \$464,366 to operate the Sheriff's office. The Sheriff distributed taxes of \$14,867,494 to the districts for 2004 Taxes. Taxes of \$176 are due to the districts from the Sheriff and refunds of \$583 are due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Sandy Watkins, Henderson County Judge/Executive

Honorable Dennis Clary, Henderson County Sheriff

Members of the Henderson County Fiscal Court

Independent Auditor's Report

We have audited the Henderson County Sheriff's Settlement - 2004 Taxes as of June 28, 2005. This tax settlement is the responsibility of the Henderson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Henderson County Sheriff's taxes charged, credited, and paid as of June 28, 2005, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated January 19, 2006, on our consideration of the Henderson County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Sandy Watkins, Henderson County Judge/Executive

Honorable Dennis Clary, Henderson County Sheriff

Members of the Henderson County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

Audit fieldwork completed -
January 19, 2006

HENDERSON COUNTY
DENNIS CLARY, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES

June 28, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,572,175	\$ 1,439,545	\$ 7,004,741	\$ 2,054,053
Tangible Personal Property	240,413	219,986	879,559	918,044
Intangible Personal Property				307,293
Fire Protection	1,077			
Increases Through Exonerations	232	210	982	462
Franchise Corporation	166,432	150,894	639,984	
Additional Billings	9,213	11,053	32,771	25,511
Unmined Coal - 2004 Taxes	19,902	18,392	88,672	25,813
Omitted Unmined Coal - 2004 Taxes	361	385	1,607	468
Oil and Gas Property Taxes	13,497	12,161	60,136	17,506
Limestone, Sand, and Mineral Reserves	26	24	119	35
Penalties	9,840	9,005	43,553	13,751
Adjusted to Sheriff's Receipt	(950)	(2,906)	(4,269)	(1,232)
Gross Chargeable to Sheriff	<u>\$ 2,032,218</u>	<u>\$ 1,858,749</u>	<u>\$ 8,747,855</u>	<u>\$ 3,361,704</u>
<u>Credits</u>				
Exonerations	\$ 22,938	\$ 20,885	\$ 86,267	\$ 6,753
Discounts	30,307	27,758	131,591	55,646
Delinquents:				
Real Estate	21,717	19,842	96,690	28,147
Tangible Personal Property	458	415	1,395	1,460
Intangible Personal Property				550
Additional Bills - Prior Years	164	155	206	63
Uncollected Franchise	19,263	17,486	71,801	
Total Credits	<u>\$ 94,847</u>	<u>\$ 86,541</u>	<u>\$ 387,950</u>	<u>\$ 92,619</u>
Taxes Collected	\$ 1,937,371	\$ 1,772,208	\$ 8,359,905	\$ 3,269,085
Less: Commissions *	<u>82,625</u>	<u>75,319</u>	<u>167,198</u>	<u>139,224</u>
Taxes Due	\$ 1,854,746	\$ 1,696,889	\$ 8,192,707	\$ 3,129,861
Taxes Paid	1,854,097	1,696,071	8,188,401	3,128,925
Refunds (Current and Prior Year)	<u>919</u>	<u>825</u>	<u>4,135</u>	<u>1,237</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (270)</u>	<u>\$ (7)</u>	<u>\$ 171</u>	<u>\$ (301)</u>

* and ** See Next Page.

The accompanying notes are an integral part of this financial statement.

HENDERSON COUNTY
 DENNIS CLARY, SHERIFF
 SHERIFF'S SETTLEMENT - 2004 TAXES
 June 28, 2005
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on		6,968,664
2% on		8,359,905

** Special Taxing Districts:

Library District	\$	1
Health District		(2)
Extension District		(10)
East Fork Ditch		1
Canoe Creek Ditch		<u>3</u>
Due Districts or (Refunds Due Sheriff)	\$	<u><u>(7)</u></u>

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENT

June 28, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 28, 2005, the Sheriff's deposits were fully insured at a 100% level.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENT
June 28, 2005
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 1, 2004 through April 27, 2005.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2004. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was March 4, 2005 through June 28, 2005.

Note 4. Interest Income

The Henderson County Sheriff earned \$10,574 as interest income on 2004 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of January 19, 2006, the Sheriff owed \$294 in interest to his fee account and was due a refund from the school district of \$294 for overpayment of interest.

Note 5. Sheriff's 10% Add-On Fee

The Henderson County Sheriff collected \$59,568 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Henderson County Sheriff collected \$4,130 of advertising costs and \$6,960 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2004 taxes, the Sheriff had \$495 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

COMMENT AND RECOMMENDATION

HENDERSON COUNTY
DENNIS CLARY, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

As of June 28, 2005

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control, such as functions prescribed by statutes and regulations and by budgetary constraints. We recommend the Sheriff implement the compensating controls noted below to offset the internal control weakness.

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- An occasional surprise cash count should be performed.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response:

None

PRIOR YEAR:

The prior year audit report also had "Lacks Adequate Segregation of Duties" as a reportable condition and material weakness.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To Honorable Sandy Watkins, Henderson County Judge/Executive
Honorable Dennis Clary, Henderson County Sheriff
Members of the Henderson County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Henderson County Sheriff's Settlement - 2004 Taxes as of June 28, 2005, and have issued our report thereon dated January 19, 2006. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Henderson County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Henderson County Sheriff's Settlement -2004 Taxes as of June 28, 2005 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
January 19, 2006

